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REPLACES FORM 36-8
WHICH MAY BE USED

(47)

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SECRET**ALTERNATIVE ENERGY GROUP**

Objective: The President has clearly indicated his position on oil and gas export controls and this decision should be followed up vigorously. In addition, it is necessary to review energy alternatives to the Siberian pipeline and to determine what actions the United States can take to assist in their development -- both at home and abroad. A positive program on energy alternatives, if successful, will improve present European-Japanese-U.S. relations, without softening our stance toward the Soviet Union.

Issues for Consideration: The Alternative Energy Group should develop a plan of action on energy alternatives (with specific recommendations for U.S. action) comprised of the following four interrelated subjects:

- I. State of Play of the Pipeline
- II. Energy Alternatives to Siberian Gas
- III. U.S.-Japanese Energy Relationship
- IV. U.S. Contribution and Political Strategy.

Schedule: Initially the group might concentrate on domestic measures which would improve overall international energy markets to the benefit of all countries. Positive action at home will improve overall U.S. energy security, increase our creditability abroad and put us in a better position once Allied consultations are renewed on this issue.

The second major step is to determine a political strategy and timing for presenting our case to the Europeans and Japanese. This task will be made easier to the extent that we can achieve progress domestically.

It is proposed that a first meeting of the group be convened the week of June 28, after which the staff working group will prepare decision documents for consideration the week of July 12. This will allow Cabinet level review of any proposals by mid to late July.

The attached comprehensive outline illustrates the possible range of topics we might consider. It will obviously have to be narrowed as we go along.

Attachment: As stated.

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Review June 29, 1988

Classified by William F. Martin

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Additional gas pipeline from N. Africa
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- LNG submarine exports to Europe (GD proposal) ?
- LNG imports (North Africa, Middle East, Trinidad)
- U.S. coal
- Iran-Turkey gas pipeline to Western Europe
- European Gas Security (including role of IEA)

III. Japanese-U.S. Energy Relationship

- A. Japanese energy supply and demand situation and potential for imports of oil, gas and coal from the U.S.

IV. U.S. Contribution and Political Strategy

- A. U.S. Role (quantify cost/benefit of each measure)
 - Technical assistance in North Sea
 - Financial assistance in North Sea (Ex-Im)
 - Domestic actions which would improve international markets

Consistent with strengthening market forces

1. deregulation of natural gas prices
2. allow export of Alaskan oil to Japan (or alternatively allow Japanese to purchase Alaskan oil for storage in the SPR); encouragement of Japanese-financed LNG plant in Alaska
3. Nuclear power

Other Measures

1. accelerate dredging of coal ports ✓
2. review position on eminent domain for coal slurry pipelines ✓
3. ~~restrict~~ imported LNG
4. U.S. ~~LNG~~ exports
5. energy tax
6. more forthcoming position on oil security within the IEA

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B. Elements of a Political Strategy and Schedule

- Scenario for the coming months (bilaterals, multilateral initiatives) including monitoring of European/Japanese response to sanctions and strategies for presenting the alternatives' package
- Role of Ambassador Galbraith; necessary staff preparation
- Selection of point man for Japan
- High level DOE technical mission to Norway
- Industry consultations on North Sea potential
- Congressional relations/legislation *election*
- ICA information campaign *might after*

last of data we want from other parts.

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*for Morris signed on cover***SECRET**Issues for Consideration*Smith for System*
I. State of Play on the Pipeline

- A. Effect on pipeline of vigorous implementation of President's decision on sanctions.
- B. European technical options and possible U.S. responses:
 - 1. Go ahead with Alsthom rotors/blocking legislation
 - 2. Alternative European turbine combinations
 - Rolls Royce
 - Brown Boveri or Sulzer
 - Stal Laval
 - 3. Joint development of Soviet 25 MW turbine
- C. Ability of Soviets to deliver gas through existing pipeline infrastructure and affect on internal Soviet energy development
- D. Modification of the rules of June 22 (taking into consideration response from business community)

II. Analytical Framework for Viewing Alternative Energy Sources to the Siberian Gas (Most of this section has been completed, although it should be updated as appropriate, especially in light of any domestic U.S. actions which affect international markets.)

- A. Analysis of European gas demand/supply projections (regionally and key countries) with and without Siberian gas including investment, infrastructure and political requirements for each scenario.
- B. Specific Issues
 - Norwegian gas
 - UK gas
 - Dutch gas
 - Continental indigenous production (Germany, France, Italy)

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AP is depending on US decision - 60 day "decision" for next 6 months - argument to limit sanctions to 6 months - pipeline to be developed - gas transmission equipment - develop facilities

*Copy
policy initiatives / gov't
n for and industrial
boilers?
US coal?*